# SUCCESSION PLANNING

While the ancients propagate our earthly departure as the only truth, we live and act as immortals. The same holds true in the corporate world. While exit dates are either preset or, in case of MSME promoters, pre-ordained by certain happenings, the passing of the baton is still a rushed act, and the success of the transfer is usually driven more by luck than any planning. Why leave decades of hard work to luck? Is there a right time to plan your succession? What are the critical steps involved?

Let me take up these with the MSME segment in perspective.

Experience shows that around 50 years of age most promoters find themselves at crossroad- Can I do something different? My friend sold his business and is living his passion, can I? I need to really start looking after my health, is it time the next generation took over? The questions may vary but the issue is about moving on. I can never emphasize enough on the importance of this introspection. If these questions are popping up often, it is wise to start planning your moves, for these, if unattended, could make you lethargic and affect your business. Best to step down in style. Remember, succession is not about giving up – it is about paving the path for your legacy to continue. Once the desire to move on is clear, the choices are: passing it to the family, bringing in the professional cavalry or selling out. The last option is a whole chapter, with its own set of intricate issues to consider, like valuing your business, promoter involvement, etc. That will be another article. With focus on succession, the question is when and how? We don't want the business to crumble. When I talk to MSME promoters/ owners about the importance of planning, they initially shrug it away by highlighting their success on "gut calls" that is, till I take them through all their major "gut calls" and show them their actual strategy which they somehow prefer attributing to the gut. Planning a departure, full or phased out, is the most important strategy you will undertake, other than your initiation into the business.

Normally, planning 5 years prior to "full departure" is ideal. Of course, it depends on whether you really wish for a full exit, retaining "board control" or retaining "some areas of involvement". Whatever your decision, involve your family and key management in the initial thought process. It is important to know your talent pool, and that to objectively. Even within a family, the skills you cannot be equal. There will be differences and it is better that you accept it and be forceful in your views or else suffer later. Most importantly, identify your leak points i.e. people who will necessarily leave. Your successor needs to be empowered with the right people who compliment his or her skills.

It is advisable to take outside help at this stage, preferably consultants who have experience and can help untangle familial knots.

With this in motion, it will be wise to get your house in order. Don't forget, you got it up and running and you know everything there is to know about your business. The next guy does not and is unlikely to have such a deep insight. You need to break it down into segments – are your regulatory compliances up to speed? Get them cleaned up. Get your vendor management and supply management smoothened out. Remove the clutter. You should be in position to handover or retain the critical aspects here. The same would apply to your customers and clients.

Many outgoing promoters keep one critical area with themselves – key accounts. A good integrated software, if not already in place, could be your Messiah for all of the above. This is the stage when your choice of exit matters as this is when you define the powers invested in the CEO. Then comes the creation of a formal board of directors to balance the CEO.

The Board composition really depends on whether you will remain involved or be a mere shareholder. Balancing the board with family members is useful. The Independent board members (non-family) should have the level of experience you need and be people you trust, but not be stooges. Define the selection criteria, powers, duty and duration. You will need to carve out a whole new governance mechanism, much of it will replace the Articles of Association of your firm. This will also the point where you plan how your shareholding is settled and put in place family controls and asset management. These are normally done through tax efficient trust(s). All this requires consultants who have the requisite expertise.

Sometimes, when succession is not an option, but a phased exit is, it could be useful to bring in a strategic partner to share responsibilities. A well-known brand could also enhance image and revenues, and thus make you eventual parting sweeter. Like I said, sell out is a whole new area and one should delve into it separately.

Succession planning cannot be a "gut call". Plan it well. Many studies have shown that an unplanned succession results in expensive exits, sometimes as much as 10 times the remuneration of the departing CEO! Infosys is a very public case in point. Studies also show that organic in-house successions have a 70-80% success rate. European family businesses have mastered this and thrived. It is time that Indian MSMEs did too.

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